

# Sather Financial Group, Inc.

## September 22, 2001 Interim Commentary

Whether discussing the financial markets or any other aspect of life, this past week was certainly one filled with volatility and emotion. However bleak things have appeared in the past week I do see a small, but steady light at the end of the tunnel giving me hope for recovery.

As predicted, the Federal Reserve did lower interest rates before the markets opened Monday. That did little to stave off the drop in the markets. By Friday we had experienced one of the worst weeks ever in stock market history. The Dow fell 14.26% in its worst week since 1933. Similarly, the S&P 500 fell 11.6%; its second worst week ever. The NASDAQ had its third worst week as a result of its 16.1% fall. Will this send our economy into a recession? It would be quite natural to expect a recession. However, I don't anticipate it will be that prolonged or severe.

Given the grim realities since September 11, 2001 what are the implications and where do we go from here?

To begin with, it probably should have been expected that the markets would behave as they did this past week. The foreign markets sold off between 5% and 11% as a result of what happened to the USA. As such, it would not be out of the ordinary for our market to fall at least 11%. Poor timing also added insult to injury as the quarterly "triple witching" day arrived on Friday. Triple witching is an industry term used to describe the second to last Friday of the quarter when options contracts on stocks, stock indices and stock index futures all come due at once. This almost always creates immense volatility and bizarre behavior. Additionally, the influence of triple witching rarely has much to do with the underlying fundamentals of corporations or the economy.

So where exactly is this light at the end of the tunnel? First off, the fact that the New York Stock Exchange functioned flawlessly this past week is nothing short of a miracle. The NYSE handled record trading volumes and worked around a multitude of power and equipment problems. Additionally, the Federal Reserve meets again on October 2<sup>nd</sup> at which time it is widely anticipated that interest rates will again be lowered. While action of this nature takes time to filter through our economic system it will provide much needed stimuli.

We also have history on our side. Granted, nothing in the past exactly duplicates recent events. However, we as a nation have many times faced intense adversity and each time we have not only survived, but excelled.

### Some Terrorist Events and Acts of War that Affected the Dow Jones Industrial Average

| <u>Event</u>           | <u>Initial Reaction</u> | <u>1 Month Later</u> | <u>3 Months</u> | <u>6 Months</u> |
|------------------------|-------------------------|----------------------|-----------------|-----------------|
| Pearl Harbor           | -6.5%                   | 3.8%                 | -2.9%           | -9.6%           |
| Korean War             | -12%                    | 9.1%                 | 15.3%           | 19.2%           |
| Cuban Missile Crisis   | -9.4%                   | 15.1%                | 21.3%           | 28.7%           |
| US bombing of Cambodia | -14.4%                  | 9.9%                 | 20.3%           | 20.7%           |
| US invades Grenada     | -2.7%                   | 3.9%                 | -2.8%           | -3.2%           |
| US bombing of Libya    | 2.6%                    | -4.3%                | -4.1%           | -1.0%           |
| US invasion of Panama  | -1.9%                   | -2.7%                | 0.3%            | 8%              |
| Gulf War               | -4.3%                   | 17%                  | 19.8%           | 18.7%           |

In looking at these historical figures it is interesting to note that while the stock market was negative six months after Pearl Harbor, the investor who bought US blue chip stocks just after this event and held them through 1945 earned more than 25% annually.

Additionally, by Friday we saw many badly battered stocks stabilize and actually increase. General Electric was the most notable of those recovering, but we should also note the stabilization of Berkshire Hathaway, Chubb, Allstate, Honeywell, United Technologies, Citigroup, Goldman Sachs, Hewlett Packard, Home Depot, Office Depot, Texas Instruments and United Parcel Service. These companies represent a broad cross section of corporate America, all of which were heavily sold off. However, by Friday traders realized these companies were not going to stop selling their products at profitable levels and they aren't going away.

As we go forward, investors must separate temporary implications from those that are permanent. Anyone who saw 60 Minutes this past Sunday received a rare surprise—an interview with Warren Buffett. When asked if Buffett would be selling he replied "no, however, I may be buying." Buffett went on to state that if he owned all or part of an American business before the attacks he would be foolish to sell them at a greatly reduced price after the attacks. Additionally, Buffett commented "whatever you thought about the stock market before the attack on the World Trade Center is what you should be thinking today." "I don't have any feeling that this will cause the market to behave much differently from how it would have behaved without this disaster."

We must remember that decisions made under panic conditions are usually regretted. The stock market always has been and always will be a long term (10+ year) proposition. Do not let short term events cloud your vision of your long term game plan. Furthermore, the modern financial history of the USA holds no example of a physical disaster, or even war, that wreaked lasting havoc on investment returns.

In closing, every individual should use events such as those recently experienced to review their personal Goals and Objectives. Determine how stock market exposure is appropriate for you and how it should be implemented. For those individuals with the appropriate time frame, the stock market continues to provide ownership and access to very profitable companies. It is this ownership of profitable companies that allows individuals the opportunity to grow their wealth.

Despite the emotion and dire predictions by some I will also follow Mr. Buffett's advice and continue to find solid and profitable businesses to own for the long term. In that context I, too, will remember that we still live in the greatest and most productive nation on the face of the earth. I could not ask for a better place to live or invest. Call with questions.

Sincerely yours,

Dave Sather, President  
Certified Financial Planner